

**UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION**

PJM Interconnection, LLC

*
*

Docket Nos. ER05-1410-000
and EL05-148-000

TECHNICAL CONFERENCE STATEMENT OF WILLIAM F. FIELDS,
MARYLAND OFFICE OF THE PEOPLE’S COUNSEL

Good morning. I am William F. Fields, Senior Assistant People’s Counsel for the Maryland Office of the People’s Counsel (OPC). OPC is an independent state agency that represents the interests of Maryland’s residential utility customers. We have participated extensively in the PJM stakeholder process on this issue, including the Commission’s previous technical conference. OPC thanks the Commission for this opportunity to provide our views on these important reliability and market issues.

In this case, OPC is a member of the Coalition of Consumers for Reliability (CCR). However, my comments today are only on behalf of my office. CCR is a coalition of seven consumer advocate offices and six municipal and cooperative electric utilities, some of which represent numerous entities.

My basic responses to the questions posed to this panel are: 1) the current market system has produced sufficient revenue streams overall to ensure more than enough capacity to maintain reliability. There is no justification, and it would not be prudent, to make the fundamental changes to the PJM market design that PJM proposes. 2) Prior to a major restructuring of the capacity construct, weaknesses in the transmission planning process need to be addressed.

As a member of CCR, OPC has filed a protest in opposition to RPM. There is a lot at stake for customers in this proceeding, both in terms of reliability and dollars. Customers deserve a reliable system at just and reasonable prices. One without the other is not sufficient. In CCR's protest, we have looked carefully at the arguments and claims regarding problems with the PJM markets. The first question that should be asked is whether there is evidence that the PJM markets are providing sufficient compensation to ensure reliability.

Under the current PJM market design, generators receive market-based revenues and, accordingly, bear the risks of such market-based compensation. Market participants form expectations of future levels of such revenues, and investors can make decisions based on this information. This creates opportunities for sharing the risk of investment through bilateral contracts.

We see evidence that this compensation system is sufficient to induce new investment and maintain adequate reliability. For this inquiry, we have looked at the picture of the global capacity situation in PJM for information and seen sufficient capacity reserve margins through the start of the next decade. We have looked at the PJM queues and seen plants continuing to come into the queue and move through the process to construction. While the global capacity situation is not the entire answer for reliability, it is the place to look for evidence that the basic structure of the market is not working, and that evidence is not there. The story told by looking at these indicators of the future is different than the story that is told by looking at average historic revenue analyses, as are published every year in the State of the Market Report. If historic revenue analysis told the story, it is hard to imagine that there would be a surplus of

capacity or projects moving through the queues. This should tell us that focusing on historic revenue analysis can lead us down some wrong paths.

As the basic elements of the PJM electricity markets are not broken, we should not try to fix them. The RPM proposal is designed to increase and further stabilize compensation to generators, but we do not see evidence that either change is needed. I certainly understand that there are people who are of the opinion that the fundamental changes to the PJM market design proposed in the RPM filing will work out and even be a benefit to customers in the long run. However, we cannot support a radical redesign of a system that appears to be working in the hope that years from now, consumers will see some benefit. There is every indication that RPM will raise prices for consumers, and on their behalf, we are looking for solid evidence of a problem before those higher prices are imposed.

In the CCR protest, we described an alternative, the Enhanced Integrated Transmission and Capacity Construct (ETICC), that keeps the basic fundamentals of the PJM electricity markets in place. We also provided an alternative to that alternative, if you will, in case the Commission is persuaded that an electricity market model where investors take the risk of forward revenue streams when making investment decisions will not work. If this fundamental aspect of the market is not working, implementation of RPM on the hope that sufficient investment will come is not the right response. Rather, we should explore a system of long-term contracting where capacity needs are independently determined and procured through a competitive solicitation of some kind for long-term commitments.

This is all not to say that there are no issues that need to be addressed or that there is no opportunity for improvement. PJM has identified deliverability issues for certain locations on the system. The role of transmission planning, and reform of that system, should not be glossed over in this discussion. The PJM planning model has taken a minimalist approach to reliability planning – i.e., what upgrade is needed to address the reliability criteria violation identified in a five-year window - as opposed to an approach that evaluates the system and provides the upgrades that are needed to stay ahead of reliability issues and provide a platform for competition throughout the region. We have seen a small first step in that process with expansion of the planning horizon to 10 to 15 years for certain types of upgrades. PJM has been working through a process with its stakeholders on other aspects of the planning issues. To get a good result for consumers, it is critical that the planning element be fully resolved.

With the RPM filing, we are going about this in the wrong order. The Commission should direct PJM to come back with a comprehensive planning process that incorporates long-term reliability, scenario analysis, and market efficiency planning components. Once that is understood and functioning, the Commission can take a reasoned look at what is necessary on the capacity side.

Thank you and I look forward to answering any questions you might have.

Respectfully submitted,

William F. Fields
Senior Assistant People's Counsel

Maryland Office of the People's Counsel
6 St. Paul Street, Suite 2102
Baltimore, Maryland 21202
410-767-8150
billf@opc.state.md.us